

# Hardin County Water District No. 1

*Serving Radcliff and Hardin County for Over 50 Years*

1400 Rogersville Road  
Radcliff, KY. 40160

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September 22, 2006

Ms. Beth O'Donnell  
Executive Director - Kentucky Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, KY 40620-0615

**SUBJECT: Request for Information / Direction  
Case 2001-00211**

Dear Director O'Donnell,

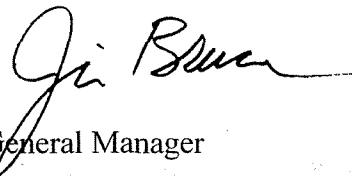
Hardin County Water District No. 1 has filed a notice of intent of file a rate case, which case number is 2006-00410. At a conference with the Commission staff and the Attorney General held on September 15, 2006, we reviewed the order from our last case (2001-00211, issued March 1, 2002). One of the requirements in that order was for a focused management audit to occur in the near future, to date which has not occurred. (See attached, page 28).

Since the last filing and case, our staff has become better educated and informed as to the Commission's requirements regarding their concerns. We have also since changed CPA firms, and hired a full time accountant. We believe the issues in place in 2001 and 2002 have been corrected and resolved.

Now that four (4) years have passed since the Commission gave its order on this matter, we request your assistance in determining the Commission's current intent regarding the management audit so that we may plan accordingly. We feel that we have made significant improvements in our operations since the previous case was completed, but if a management audit is still required, we will, of course, give our full cooperation to the Commission and the auditors during the course of the audit.

If you have any questions, please do not hesitate to call me or our attorney, Mr. David Wilson II (Phone: 270-351-4404).

Sincerely,



Jim Bruce, General Manager

Cf; Mr. David Wilson II, HCWD1 Attorney  
Mr. Brent Tippey, P.E., Quest Engineers

Encl.

## FOCUSED MANAGEMENT AUDIT

During this proceeding, the Commission has become aware of several instances with regard to Hardin District's management and operation that cause it concern. These instances have included:

- Lack of strategic planning in failing to timely plan for the loss of Hardin District No. 2 as a wholesale customer.
- Numerous failures to comply with the requirements of KRS Chapter 74.
- Lack of understanding of Hardin District's depreciation records.
- Inability to reconcile Hardin District's accounting system to its annual report as required by the Uniform System of Accounts For Class A and B Water Districts and Associations.

Based on these concerns, the Commission finds that a focused management audit of Hardin District should be performed. We believe that such an audit will benefit Hardin District's management by allowing for greater familiarity with legal, regulatory, and accounting requirements and will aid Hardin District in developing and implementing a strategic plan. These efforts will ultimately result in reduced costs and thus benefit Hardin District's customers. The Commission will instruct its Staff to initiate this focused management audit in the near future.

## CONCLUSION

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Hardin District proposes to construct 12.3 miles of 16-inch ductile iron transmission main from its Pirtle Water Treatment Plant to an existing 12-inch transmission main located at the intersection of Kentucky Highways 1882 and 1600 in Hardin County, Kentucky. It further proposes to construct approximately 25.7 miles of